

**REPORT OF THE AUDIT OF THE  
HANCOCK COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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To the  
Kentucky

**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

People of

Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jack McCaslin, Hancock County Judge/Executive  
Members of the Hancock County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP, evaluated the Hancock County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**HANCOCK COUNTY FISCAL COURT**

**For The Fiscal Year Ended**  
**June 30, 2007**

Tichenor & Associates, LLP has completed the Hancock County Fiscal Court audit for fiscal year ended June 30, 2007. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$6,894,537 as of June 30, 2007. The fiscal court had unrestricted net assets of \$2,618,993 in its governmental activities as of June 30, 2007, with total net assets of \$6,894,537. The fiscal court had total debt principal as of June 30, 2007 of \$261,569 with \$194,561 due within the next year.

Report Comment:

- Lack Of Segregation Of Duties In The Occupational Tax Department

Deposits:

The fiscal court's deposits as of June 30, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$532,761



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**TICHENOR & ASSOCIATES, LLP**  
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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jack McCaslin, Hancock County Judge/Executive

Members of the Hancock County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hancock County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Hancock County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jack McCaslin, Hancock County Judge/Executive  
Members of the Hancock County Fiscal Court

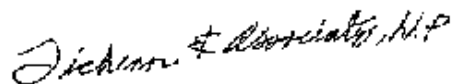
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hancock County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2008 on our consideration of Hancock County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the following comment and recommendation, included herein, which discusses the following report comment:

- Lack Of Segregation Of Duties In The Occupational Tax Department

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name of the firm.

Tichenor & Associates, LLP

February 1, 2008

HANCOCK COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2007

**Fiscal Court Members:**

|                   |                        |
|-------------------|------------------------|
| Jack B. McCaslin  | County Judge/Executive |
| James W. Hodskins | Magistrate             |
| Franklin W. Estes | Magistrate             |
| Michael C. Powers | Magistrate             |
| Larry G. Sosh     | Magistrate             |

**Other Elected Officials:**

|                  |                                  |
|------------------|----------------------------------|
| Paul Madden Jr.  | County Attorney                  |
| Trina M. Ogle    | County Clerk                     |
| Noel J. Quinn    | Circuit Court Clerk              |
| Ralph D. Bozarth | Sheriff                          |
| Dennis Long      | Property Valuation Administrator |
| David C. Gibson  | Coroner                          |

**Appointed Personnel:**

|                 |                  |
|-----------------|------------------|
| Melissa D. Carr | County Treasurer |
|-----------------|------------------|

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**HANCOCK COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**



**HANCOCK COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**

|   | <b><u>Primary Government<br/>Governmental<br/>Activities</u></b> |
|---|--|
| <b>ASSETS</b>                                       |  |
| Current Assets:                                     |  |
| Cash and Cash Equivalents                           | \$ 2,478,193   |
| Receivables   | 367,600  |
| Restricted Cash and Cash Equivalents                | 27,040   |
| Total Current Assets                                | <u>2,872,833</u>   |
| Noncurrent Assets:                                  |  |
| Capital Assets - Net of Accumulated<br>Depreciation |  |
| Contruction In Progress                             | 273,843  |
| Land  | 862,102  |
| Buildings   | 1,614,270  |
| Equipment   | 514,707  |
| Vehicles  | 328,769  |
| Infrastructure Assets - Net<br>of Depreciation      | <u>689,582</u>   |
| Total Noncurrent Assets                             | <u>4,283,273</u>   |
| Total Assets  | <u>7,156,106</u>   |
| <b>LIABILITIES</b>                                  |  |
| Current Liabilities:                                |  |
| Financing Obligations                               | 194,561  |
| Total Current Liabilities                           | <u>194,561</u>   |
| Noncurrent Liabilities:                             |  |
| Financing Obligations                               | <u>67,008</u>  |
| Total Noncurrent Liabilities                        | <u>67,008</u>  |
| Total Liabilities                                   | <u>261,569</u>   |
| <b>NET ASSETS</b>                                   |  |
| Invested in Capital Assets,<br>Net of Related Debt  | 4,021,704  |
| Restricted For:                                     |  |
| Debt Service  | 27,040   |
| Landfill Postclosure                                | 226,800  |
| Unrestricted  | 2,618,993  |
| Total Net Assets                                    | <u><u>\$ 6,894,537</u></u>                                       |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**

**HANCOCK COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

| <u>Functions/Programs</u>          | <u>Expenses</u>     | <u>Program Revenues Received</u>      |   |   |
|------------------------------------|---------------------|---------------------------------------|---|---|
|                                    |                     | <u>Charges for</u><br><u>Services</u> | <u>Operating</u><br><u>Grants and</u><br><u>Contributions</u> | <u>Capital</u><br><u>Grants and</u><br><u>Contributions</u> |
| <b>Primary Government:</b>         |                     |                                       |   |   |
| Governmental Activities:           |                     |                                       |   |   |
| General Government                 | \$ 1,560,549        | \$ 290,288                            | \$ 621,196  | \$  |
| Protection to Persons and Property | 1,101,460           | 206,181                               |   |   |
| General Health and Sanitation      | 474,215             |                                       |   |   |
| Social Services                    | 433,111             |                                       |   | 247,247   |
| Recreation and Culture             | 355,547             | 339,683                               |   |   |
| Roads                              | 868,354             | 300                                   | 573,662   |   |
| Bus Service                        | 185,700             |                                       |   |   |
| Interest on Long-Term Debt         | 2,538               |                                       |   |   |
| Total Governmental Activities      | <u>\$ 4,981,474</u> | <u>\$ 836,452</u>                     | <u>\$ 1,194,858</u>   | <u>\$ 247,247</u>   |

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**HANCOCK COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2007**  
**(Continued)**

| <b>Net (Expenses)</b>        |             |
|------------------------------|-------------|
| <b>Revenues and</b>          |             |
| <b>Changes in Net Assets</b> |             |
| <b>Primary Government</b>    |             |
| <b>Governmental</b>          |             |
| <b>Activities</b>            |             |
| <hr/>                        |             |
| \$                           | (649,065)   |
|                              | (895,279)   |
|                              | (474,215)   |
|                              | (185,864)   |
|                              | (15,864)    |
|                              | (294,392)   |
|                              | (185,700)   |
|                              | (2,538)     |
|                              | <hr/>       |
|                              | (2,702,917) |
|                              | <hr/>       |
|                              | 215,302     |
|                              | 37,642      |
|                              | 38,728      |
|                              | 2,808,163   |
|                              | 476,459     |
|                              | 95,727      |
|                              | 197,778     |
|                              | 86,329      |
|                              | <hr/>       |
|                              | 3,956,128   |
|                              | <hr/>       |
|                              | 1,253,211   |
|                              | <hr/>       |
|                              | 5,641,326   |
|                              | <hr/>       |
| \$                           | 6,894,537   |
|                              | <hr/>       |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**



**HANCOCK COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2007**

|                                      | <b>General<br/>Fund</b> | <b>Road<br/>Fund</b> | <b>LGEA<br/>Fund</b> | <b>Non-<br/>Major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--------------------------------------|-------------------------|----------------------|----------------------|---------------------------------|---|
| <b>ASSETS</b>                        |                         |                      |                      |                                 |   |
| Cash and Cash Equivalents            | \$ 1,873,107            | \$ 126,520           | \$ 297,121           | \$ 181,445                      | \$ 2,478,193                            |
| Restricted Cash and Cash Equivalents | 27,040                  |                      |                      |                                 | 27,040                                  |
| Total Assets                         | <u>\$ 1,900,147</u>     | <u>\$ 126,520</u>    | <u>\$ 297,121</u>    | <u>\$ 181,445</u>               | <u>\$ 2,505,233</u>                     |
| <b>FUND BALANCES</b>                 |                         |                      |                      |                                 |   |
| Reserved for:                        |                         |                      |                      |                                 |   |
| Encumbrances                         | \$ 385,150              | \$ 73,716            | \$ 1,588             | \$ 23,384                       | \$ 483,838                              |
| Landfill Postclosure                 | 226,800                 |                      |                      |                                 | 226,800                                 |
| Debt Service                         | 27,040                  |                      |                      | 414                             | 27,454                                  |
| Unreserved:                          |                         |                      |                      |                                 |   |
| General Fund                         | 1,261,157               |                      |                      |                                 | 1,261,157                               |
| Special Revenue Funds                |                         | 52,804               | 295,533              | 157,647                         | 505,984                                 |
| Total Fund Balances                  | <u>\$ 1,900,147</u>     | <u>\$ 126,520</u>    | <u>\$ 297,121</u>    | <u>\$ 181,445</u>               | <u>\$ 2,505,233</u>                     |

**Reconciliation of the Balance Sheet-Governmental Funds to Statement of Net Assets:**

|  |                     |
|--|---------------------|
| Total Fund Balances  | \$ 2,505,233        |
| Amounts Reported For Governmental Activities In The Statement<br>Of Net Assets Are Different Because:                                |                     |
| Capital Assets Used In Governmental Activities Are Not Financial Resources<br>And Therefore Are Not Reported In The Funds.           | 7,839,309           |
| Accumulated Depreciation   | (3,556,036)         |
| Receivables Reported At The Government-wide Level Are Not Current<br>Financial Resources And Therefore Are Not Reported In The Funds | 367,600             |
| Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not<br>Reported In The Funds.                         |                     |
| Financing Obligations  | (261,569)           |
| Net Assets Of Governmental Activities  | <u>\$ 6,894,537</u> |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

|   | <b>General<br/>Fund</b> | <b>Road<br/>Fund</b> | <b>LGEA<br/>Fund</b> | <b>Non-<br/>Major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|-------------------------|----------------------|----------------------|---------------------------------|---|
| <b>REVENUES</b>   |                         |                      |                      |                                 |   |
| Taxes   | \$ 3,179,339            | \$                   | \$                   | \$ 42,229                       | \$ 3,221,568                            |
| In Lieu Tax Payments  | 21,518                  |                      |                      |                                 | 21,518                                  |
| Excess Fees   | 95,727                  |                      |                      |                                 | 95,727                                  |
| Licenses and Permits  | 29,862                  |                      |                      |                                 | 29,862                                  |
| Intergovernmental   | 743,003                 | 806,600              | 112,760              | 386,459                         | 2,048,822                               |
| Charges for Services  | 284,401                 |                      |                      | 30,328                          | 314,729                                 |
| Miscellaneous   | 349,830                 | 84,543               |                      |                                 | 434,373                                 |
| Interest  | 54,972                  | 15,127               | 9,303                | 6,928                           | 86,330                                  |
| Total Revenues  | <u>4,758,652</u>        | <u>906,270</u>       | <u>122,063</u>       | <u>465,944</u>                  | <u>6,252,929</u>                        |
| <b>EXPENDITURES</b>   |                         |                      |                      |                                 |   |
| General Government  | 1,132,030               |                      |                      |                                 | 1,132,030                               |
| Protection to Persons and Property  | 720,898                 |                      | 1,049                | 282,591                         | 1,004,538                               |
| General Health and Sanitation   | 470,915                 |                      | 3,300                |                                 | 474,215                                 |
| Social Services   | 150,984                 |                      | 18,500               | 249,810                         | 419,294                                 |
| Recreation and Culture  | 349,073                 |                      | 3,414                |                                 | 352,487                                 |
| Roads   |                         | 951,426              |                      |                                 | 951,426                                 |
| Airports  | 185,700                 |                      |                      |                                 | 185,700                                 |
| Debt Service  |                         |                      |                      | 29,238                          | 29,238                                  |
| Administration  | 842,634                 | 122,464              |                      | 2,890                           | 967,988                                 |
| Total Expenditures  | <u>3,852,234</u>        | <u>1,073,890</u>     | <u>26,263</u>        | <u>564,529</u>                  | <u>5,516,916</u>                        |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>906,418</u>          | <u>(167,620)</u>     | <u>95,800</u>        | <u>(98,585)</u>                 | <u>736,013</u>                          |
| <b>Other Financing Sources (Uses)</b>   |                         |                      |                      |                                 |   |
| Transfers To Other Funds  | (303,700)               | (15,000)             |                      | (15,000)                        | (333,700)                               |
| Transfers From Other Funds  |                         | 177,000              |                      | 156,700                         | 333,700                                 |
| Total Other Financing Sources (Uses)  | <u>(303,700)</u>        | <u>162,000</u>       |                      | <u>141,700</u>                  |   |
| Net Change in Fund Balances   | 602,718                 | (5,620)              | 95,800               | 43,115                          | 736,013                                 |
| Fund Balances - Beginning (Restated)  | 1,297,429               | 132,140              | 201,321              | 138,330                         | 1,769,220                               |
| Fund Balances - Ending  | <u>\$ 1,900,147</u>     | <u>\$ 126,520</u>    | <u>\$ 297,121</u>    | <u>\$ 181,445</u>               | <u>\$ 2,505,233</u>                     |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds \$ 736,013

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay 586,703

Depreciation Expense (355,092)

Receivable Principal Received (18,244)

Internal Service Funds Are Used By Management To Charge The Cost Of Expenses To Individual Funds. The Net Revenue (Expenses) Of

The Internal Service Funds Are Reported With Governmental Activities. (1,513)

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.

Financing Obligations Principal Amount 305,344

Change in Net Assets of Governmental Activities \$ 1,253,211

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**HANCOCK COUNTY**  
**STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS**

**June 30, 2007**



**HANCOCK COUNTY**  
**STATEMENT OF FUND NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS**

**June 30, 2007**

|                           |                     |
|---------------------------|---------------------|
|                           | <b>Governmental</b> |
|                           | <b>Activities</b>   |
|                           | <b>Internal</b>     |
|                           | <b>Service</b>      |
|                           | <b>Fund</b>         |
|                           | <b>Insurance</b>    |
|                           | <b>Deductible</b>   |
|                           | <b>Fund</b>         |
| <b>Assets</b>             |                     |
| Current Assets:           |                     |
| Cash and Cash Equivalents | \$                  |
| Total Current Assets      | <u>\$ 0</u>         |
| <b>Net Assets</b>         |                     |
| Restricted                | \$                  |
| Unrestricted              |                     |
| Total Net Assets          | <u>\$ 0</u>         |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS – PROPRIETARY FUND- MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS – PROPRIETARY FUND- MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

|                             |                     |
|-----------------------------|---------------------|
|                             | <b>Governmental</b> |
|                             | <b>Activities</b>   |
|                             | <b>Internal</b>     |
|                             | <b>Service</b>      |
|                             | <b>Fund</b>         |
|                             | <b>Insurance</b>    |
|                             | <b>Deductible</b>   |
|                             | <b>Fund</b>         |
| <b>Operating Revenues</b>   |                     |
| Reimbursements              | \$ 38,051           |
| Total Operating Revenues    | <u>38,051</u>       |
| <b>Operating Expenses</b>   |                     |
| Administration and Claims   | <u>39,564</u>       |
| Total Operating Expenses    | <u>39,564</u>       |
| Operating Income (Loss)     | <u>(1,513)</u>      |
| Change In Net Assets        | (1,513)             |
| Total Net Asset - Beginning | <u>1,513</u>        |
| Total Net Assets - Ending   | <u><u>\$ 0</u></u>  |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

|   | <b>Governmental</b><br><b>Activities</b><br><hr/> <b>Internal</b><br><b>Service</b><br><b>Fund</b><br><hr/> <b>Insurance</b><br><b>Deductible</b><br><b>Fund</b><br><hr/> |
|---|---|
| <b>Cash Flows From Operating Activities</b> |   |
| Reimbursement                               | \$ 38,051   |
| Administration and Claims                   | (39,564)  |
| Net Cash Used By                            |   |
| Operating Activities                        | (1,513)   |
| Cash and Cash Equivalents - July 1, 2006    | 1,513   |
| Cash and Cash Equivalents - June 30, 2007   | \$ 0  |

**Reconciliation Of Operating Loss**  
**To Net Cash Used**  
**By Operating Activities**  


---

|                      |            |
|----------------------|------------|
| Operating Loss       | \$ (1,513) |
| Net Cash Used By     |            |
| Operating Activities | \$ (1,513) |

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**HANCOCK COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Hancock County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria above, there are no component units which merit consideration as part of the reporting entity.

**C. Hancock County Elected Officials**

Kentucky law provides for election of officials listed on the next page from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Hancock County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

HANCOCK COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007  
 (Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. The County has no business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

HANCOCK COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007  
 (Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The purpose of this fund is to account for local government development funds received from the state government. The funds may be used for roads, protection of persons and property, social services and general health and sanitation expenditures.

The primary government also has the following non-major funds: Jail Fund, E911 Fund, Federal Grant Fund and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, LGEA Fund, E911 Fund, and Federal Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Jail Fund had a negative unreserved fund balance of \$9,608.

Debt Service Funds:

The County has one debt service fund included as a non-major fund. Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest.

**Internal Service Fund**

The primary government reports the following internal service fund:

Insurance Deductible Fund - This fund accounts for services provided to the county's employees as a benefit. The Insurance Deductible Fund of the fiscal court is reported as an internal service fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition. KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**Note 1. Summary of Significant Accounting Policies (Continued)**

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

## F. Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

|                          | Capitalization<br>Threshold | Useful Life<br>(Years) |
|--------------------------|-----------------------------|------------------------|
| Land Improvements        | \$ 25,000                   | 10-25                  |
| Buildings                | \$ 10,000                   | 10-40                  |
| Equipment                | \$ 5,000                    | 5-10                   |
| Vehicles                 | \$ 7,500                    | 5-10                   |
| Infrastructure - Bridges | \$ 5,000                    | 10-50                  |
| Infrastructure - Roads   | \$ 10,000                   | 10-50                  |

## G. Long-term Obligations

In the government-wide financial statements long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

## H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending.

Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.



HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Jointly Governed Organization**

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following is considered a jointly governed organization of Hancock County Fiscal Court: Hancock County Airport Board.

**K. Joint Ventures**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Hancock County Urban Planning Commission is considered a joint venture of the Hancock County Fiscal Court.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 2. Deposits and Investments (Continued)**

**A. Deposits (Continued)**

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk-Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240 (4). As of June 30, 2007, the fiscal court's deposits, including the certificate of deposit, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$532,761

**B. Investments**

As of June 30, 2007, the County had the following investment, which is included in restricted cash and cash equivalents:

| <u>Investment</u>      | <u>Maturity</u>      | <u>Fair Value (Cost)</u> |
|------------------------|----------------------|--------------------------|
| Certificate of Deposit | Greater than 90 Days | \$ 27,040                |

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, non-negotiable certificates of deposit are not subject to interest rate risk.

**Credit Risk and Concentration of Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity; uncollateralized certificates of deposit issued by a bank or savings and loan institutions rated in one of the three highest categories by a nationally recognized rating agency; bankers' acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments.

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, non-negotiable certificates of deposit are not subject to investment credit risk, as KRS 66.480 does not limit the county to 20% investment in certificates of deposit.

**Note 3. Receivables**

- A. Hancock County Fiscal Court loaned \$364,000 to World Source Industries, Inc., on June 14, 1990 for the purpose of land acquisition. Arvin Roll Coater, Inc. had assumed this loan and merged with Arvin Meritor in December 2004. Terms of the agreement stipulate a one-time payment on June 14, 2005; however, as of June 30, 2007 the payment hasn't been made and is in dispute. As of June 30, 2007, the principal balance remaining due was \$364,000.
- B. Hancock County Fiscal Court loaned \$36,000 to the Dukes Volunteer Fire Department on May 5, 1999 to fund the fire department addition. Terms of the agreement stipulate a ten-year repayment schedule without interest. Dukes Volunteer Fire Department is in substantial compliance with the terms of the agreement. As of June 30, 2007, the balance due was \$3,600.

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

| Primary Government:<br>Governmental Activities: | Reporting Entity     |            |           |                   |
|---|----------------------|------------|-----------|-------------------|
|   | Beginning<br>Balance | Increases  | Decreases | Ending<br>Balance |
| Capital Assets Not Being Depreciated:           |                      |            |           |                   |
| Land  | \$ 797,102           | \$ 65,000  | \$        | \$ 862,102        |
| Construction In Progress                        |                      | 273,843    |           | 273,843           |
| Total Capital Assets Not Being<br>Depreciated   | 797,102              | 338,843    |           | 1,135,945         |
| Capital Assets, Being Depreciated:              |                      |            |           |                   |
| Buildings                                       | 2,724,904            | 43,243     |           | 2,768,147         |
| Equipment                                       | 1,347,770            |            |           | 1,347,770         |
| Vehicles  | 1,777,921            |            |           | 1,777,921         |
| Infrastructure                                  | 604,909              | 204,617    |           | 809,526           |
| Total Capital Assets Being<br>Depreciated       | 6,455,504            | 247,860    |           | 6,703,364         |
| Less Accumulated Depreciation For:              |                      |            |           |                   |
| Buildings                                       | (1,090,760)          | (63,117)   |           | (1,153,877)       |
| Equipment                                       | (717,254)            | (115,809)  |           | (833,063)         |
| Vehicles  | (1,316,755)          | (132,397)  |           | (1,449,152)       |
| Infrastructure                                  | (76,175)             | (43,769)   |           | (119,944)         |
| Total Accumulated Depreciation                  | (3,200,944)          | (355,092)  |           | (3,556,036)       |
| Total Capital Assets, Being<br>Depreciated, Net | 3,254,560            | (107,232)  |           | 3,147,328         |
| Governmental Activities Capital<br>Assets, Net  | \$ 4,051,662         | \$ 231,611 | \$ 0      | \$ 4,283,273      |

Depreciation expense was charged to functions of the primary government as follows:

|  |                   |
|--|-------------------|
| <u>Governmental Activities:</u>                                |                   |
| General Government   | \$ 76,505         |
| Protection to Persons and Property                             | 96,922            |
| Recreation and Culture   | 3,060             |
| Roads, Including Depreciation of General Infrastructure Assets | 164,788           |
| Social Services  | 13,817            |
| Total Depreciation Expense - Governmental Activities           | <u>\$ 355,092</u> |

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 5. Financing Obligations**

**A. Note Payable, Bittel Property**

Hancock County borrowed \$106,800 from Harold and Wanda Bittel for the purpose of land acquisition. Terms of the agreement stipulate a payment of four equal installments annually with accrued interest at the certificate of deposit rate. The entire amount of the funds from the loan was deposited into a certificate of deposit to meet the debt service requirements. The balance due at June 30, 2007 was \$26,700. Future principal and interest requirements are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2008                                 | \$ 1,257                      | \$ 26,700                      |
| Totals                               | <u>\$ 1,257</u>               | <u>\$ 26,700</u>               |

**B. Airport Board Note**

Hancock County Fiscal Court borrowed \$463,700 from the Kentucky Association of Counties Leasing Trust for the purpose of land acquisition for economic development. Terms of the agreement stipulate a three-year repayment schedule at interest of 4.25%. Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2007, the principal balance was \$196,590. Future principal and interest requirements are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2008                                 | \$ 4,213                      | \$ 155,735                     |
| 2009                                 | 560                           | 40,855                         |
| Totals                               | <u>\$ 4,773</u>               | <u>\$ 196,590</u>              |

**C. Ambulance**

Hancock County Fiscal Court borrowed \$63,334 from Independence Bank for the purchase of an ambulance. Terms of the agreement stipulate a five-year repayment schedule at interest of 5.2%. Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2007, the principal balance was \$38,279. Future principal and interest requirements are:

| <u>Fiscal Year Ended<br/>June 30</u> | <u>Scheduled<br/>Interest</u> | <u>Scheduled<br/>Principal</u> |
|--------------------------------------|-------------------------------|--------------------------------|
| 2008                                 | \$ 1,990                      | \$ 12,126                      |
| 2009                                 | 1,360                         | 12,756                         |
| 2010                                 | 697                           | 13,397                         |
| Totals                               | <u>\$ 4,047</u>               | <u>\$ 38,279</u>               |

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 5. Financing Obligations (Continued)**

**D. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2007, was as follows:

|                                 | Beginning<br>Balance | Additions | Reductions        | Ending<br>Balance | Due Within<br>One Year |
|---------------------------------|----------------------|-----------|-------------------|-------------------|------------------------|
| <b>Primary Government:</b>      |                      |           |                   |                   |                        |
| <u>Governmental Activities:</u> |                      |           |                   |                   |                        |
| Financing Obligations           | \$ 566,913           | \$        | \$ 305,344        | \$ 261,569        | \$ 194,561             |
| Governmental Activities         |                      |           |                   |                   |                        |
| Long-term Liabilities           | <u>\$ 566,913</u>    | <u>\$</u> | <u>\$ 305,344</u> | <u>\$ 261,569</u> | <u>\$ 194,561</u>      |

**Note 6. Employee Retirement System**

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5% of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19%.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124, or by telephone at (502) 564-4646.

HANCOCK COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007  
(Continued)

**Note 7. Insurance**

For the fiscal year ended June 30, 2007, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Landfill Closure and Postclosure Costs**

The Hancock County Landfill was closed on June 20, 1995. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$226,800 as of June 30, 2007, or \$12,600 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

**Note 9. Prior Period Adjustments**

Beginning net assets of the governmental activities has been restated for adjustments in accumulated depreciation, revolving account balances and an addition of a savings account. The result is a net decrease of \$316,710. In addition, the general fund has been restated to reflect prior year audit adjustments and the addition of a savings account. The result is a net decrease of \$42,496.

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**HANCOCK COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2007**

|   | <b>GENERAL FUND</b>     |                    |  |   |
|---|-------------------------|--------------------|--|---|
|   | <b>Budgeted Amounts</b> |                    | <b>Actual<br/>Amounts,<br/>(Budgetary<br/>Basis)</b> | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|   | <b>Original</b>         | <b>Final</b>       |  |   |
| <b>REVENUES</b>   |                         |                    |  |   |
| Taxes   | \$ 2,631,000            | \$ 2,631,000       | \$ 3,179,339   | \$ 548,339  |
| In Lieu Tax Payments  | 23,600                  | 23,600             | 21,518   | (2,082)   |
| Excess Fees   | 68,000                  | 68,000             | 95,727   | 27,727  |
| Licenses and Permits  | 1,850                   | 1,850              | 29,862   | 28,012  |
| Intergovernmental Revenue   | 4,012,175               | 4,012,175          | 743,003  | (3,269,172)   |
| Charges for Services  | 189,415                 | 189,415            | 284,401  | 94,986  |
| Miscellaneous   | 157,250                 | 157,250            | 349,830  | 192,580   |
| Interest  | 9,250                   | 9,250              | 54,972   | 45,722  |
| Total Revenues  | <u>7,092,540</u>        | <u>7,092,540</u>   | <u>4,758,652</u>                                     | <u>(2,333,888)</u>  |
| <b>EXPENDITURES</b>   |                         |                    |  |   |
| General Government  | 1,120,415               | 1,198,775          | 1,093,979  | 104,796   |
| Protection to Persons and Property  | 984,143                 | 1,034,137          | 720,898  | 313,239   |
| General Health and Sanitation   | 3,723,256               | 3,726,646          | 470,915  | 3,255,731   |
| Social Services   | 107,734                 | 156,033            | 150,984  | 5,049   |
| Recreation and Culture  | 293,013                 | 377,591            | 349,073  | 28,518  |
| Airports  | 2,000                   | 185,700            | 185,700  |   |
| Debt Service  | 926,150                 | 692,596            |  | 692,596   |
| Administration  | 1,306,486               | 1,052,741          | 842,634  | 210,107   |
| Total Expenditures  | <u>8,463,197</u>        | <u>8,424,219</u>   | <u>3,814,183</u>                                     | <u>4,610,036</u>  |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>(1,370,657)</u>      | <u>(1,331,679)</u> | <u>944,469</u>                                       | <u>2,276,148</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                         |                    |  |   |
| Transfers Out   | (419,036)               | (419,036)          | (341,751)  | 77,285  |
| Borrowed Money  | <u>926,150</u>          | <u>926,150</u>     |  | <u>(926,150)</u>  |
| Total Other Financing Sources (Uses)  | <u>507,114</u>          | <u>507,114</u>     | <u>(341,751)</u>                                     | <u>(848,865)</u>  |
| Net Changes in Fund Balance   | (863,543)               | (824,565)          | 602,718  | 1,427,283   |
| Fund Balance - Beginning  | <u>863,543</u>          | <u>863,543</u>     | <u>1,297,429</u>                                     | <u>433,886</u>  |
| Fund Balance - Ending   | <u>\$ 0</u>             | <u>\$ 38,978</u>   | <u>\$ 1,900,147</u>                                  | <u>\$ 1,861,169</u>   |

**HANCOCK COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

|   | <b>ROAD FUND</b> |            |  |   |
|---|------------------|------------|--|---|
|   | Budgeted Amounts |            | Actual<br>Amounts,<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|   | Original         | Final      |  |   |
| <b>REVENUES</b>   |                  |            |  |   |
| Intergovernmental Revenue   | \$ 693,840       | \$ 693,840 | \$ 806,600                                 | \$ 112,760  |
| Miscellaneous   | 100,200          | 100,200    | 84,543                                     | (15,657)  |
| Interest  | 1,050            | 1,050      | 15,127                                     | 14,077  |
| Total Revenues  | 795,090          | 795,090    | 906,270                                    | 111,180   |
| <b>EXPENDITURES</b>   |                  |            |  |   |
| Roads   | 993,790          | 996,301    | 951,426                                    | 44,875  |
| Administration  | 180,800          | 178,289    | 122,464                                    | 55,825  |
| Total Expenditures  | 1,174,590        | 1,174,590  | 1,073,890                                  | 100,700   |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | (379,500)        | (379,500)  | (167,620)                                  | 211,880   |
| <b>OTHER FINANCING SOURCES (USES)</b>   |                  |            |  |   |
| Transfers Out   |                  |            | (15,000)                                   | (15,000)  |
| Transfers In  | 253,850          | 253,850    | 177,000                                    | (76,850)  |
| Total Other Financing Sources (Uses)  | 253,850          | 253,850    | 162,000                                    | (91,850)  |
| Net Changes in Fund Balance   | (125,650)        | (125,650)  | (5,620)                                    | 120,030   |
| Fund Balance - Beginning  | 125,650          | 125,650    | 132,140                                    | 6,490   |
| Fund Balance - Ending   | \$ 0             | \$ 0       | \$ 126,520                                 | \$ 126,520  |

**HANCOCK COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

|   | <u>Budgeted Amounts</u> |                  | <u>Actual</u><br><u>Amounts,</u><br><u>(Budgetary</u><br><u>Basis)</u> | <u>Variance with</u><br><u>Final Budget</u><br><u>Positive</u><br><u>(Negative)</u> |
|---|-------------------------|------------------|--|---|
|   | <u>Original</u>         | <u>Final</u>     |  |   |
| <b>REVENUES</b>   |                         |                  |  |   |
| Intergovernmental Revenue   | \$ 48,260               | \$ 48,260        | \$ 112,760   | \$ 64,500   |
| Miscellaneous   | 100                     | 100              |  | (100)   |
| Interest  | 1,300                   | 1,300            | 9,303  | 8,003   |
| Total Revenues  | <u>49,660</u>           | <u>49,660</u>    | <u>122,063</u>   | <u>72,403</u>   |
| <b>EXPENDITURES</b>   |                         |                  |  |   |
| Protection to Persons and Property  | 1,100                   | 1,100            | 1,049  | 51  |
| General Health and Sanitation   | 3,300                   | 3,300            | 3,300  |   |
| Social Services   | 24,000                  | 23,851           | 18,500   | 5,351   |
| Recreation and Culture  | 5,100                   | 5,249            | 3,414  | 1,835   |
| Roads   | 186,160                 | 186,160          |  | 186,160   |
| Total Expenditures  | <u>219,660</u>          | <u>219,660</u>   | <u>26,263</u>  | <u>193,397</u>  |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>(170,000)</u>        | <u>(170,000)</u> | <u>95,800</u>  | <u>265,800</u>  |
| Net Changes in Fund Balance   | (170,000)               | (170,000)        | 95,800   | 265,800   |
| Fund Balance - Beginning  | <u>170,000</u>          | <u>170,000</u>   | <u>201,321</u>   | <u>31,321</u>   |
| Fund Balance - Ending   | <u>\$ 0</u>             | <u>\$ 0</u>      | <u>\$ 297,121</u>  | <u>\$ 297,121</u>   |

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**HANCOCK COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2007**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Variance In General Fund Actual Amounts**

General Fund actual expenditure amounts presented on the budgetary comparison schedule and the statement of revenue, expenditures, and changes in fund balances are different. The reason for the difference is that actual amounts presented in the budgetary comparison schedule represent amounts presented in the county's fourth quarter financial report while amounts presented in the statement of revenues, expenditures, and changes in fund balances have been subjected to reclassification adjustments. However, the results of the reclassifications did not affect the net change in fund balance.





**HANCOCK COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2007**



**HANCOCK COUNTY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2007**

|                           | <u><b>Special Revenue Funds</b></u> |                   |                | <b>Total</b>        |
|---------------------------|-------------------------------------|-------------------|----------------|---------------------|
|                           | <b>Jail</b>                         | <b>E911</b>       | <b>Debt</b>    | <b>Non-Major</b>    |
|                           | <b>Fund</b>                         | <b>Fund</b>       | <b>Service</b> | <b>Governmental</b> |
|                           |                                     |                   | <b>Fund</b>    | <b>Funds</b>        |
| <b>ASSETS</b>             |                                     |                   |                |                     |
| Cash and Cash Equivalents | \$ 8,633                            | \$ 172,398        | \$ 414         | \$ 181,445          |
| Total Assets              | <u>\$ 8,633</u>                     | <u>\$ 172,398</u> | <u>\$ 414</u>  | <u>\$ 181,445</u>   |
| <b>FUND BALANCES</b>      |                                     |                   |                |                     |
| Reserved for:             |                                     |                   |                |                     |
| Encumbrances              | \$ 18,241                           | \$ 5,143          | \$             | \$ 23,384           |
| Debt Service              |                                     |                   | 414            | 414                 |
| Unreserved:               |                                     |                   |                |                     |
| Special Revenue Fund      | (9,608)                             | 167,255           |                | 157,647             |
| Total Fund Balances       | <u>\$ 8,633</u>                     | <u>\$ 172,398</u> | <u>\$ 414</u>  | <u>\$ 181,445</u>   |

The accompanying notes are an integral part of the financial statements.

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**HANCOCK COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2007**



**HANCOCK COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2007**

|   | <u>Special Revenue Funds</u> |                      |                                   |                                  | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|---|------------------------------|----------------------|-----------------------------------|----------------------------------|---|
|   | <b>Jail<br/>Fund</b>         | <b>E911<br/>Fund</b> | <b>Federal<br/>Grant<br/>Fund</b> | <b>Debt<br/>Service<br/>Fund</b> |   |
| <b>REVENUES</b>   |                              |                      |                                   |                                  |   |
| Intergovernmental   | \$ 60,465                    | \$ 78,747            | \$ 247,247                        | \$                               | \$ 386,459  |
| Taxes   |                              | 42,229               |                                   |                                  | 42,229  |
| Charges for Services  | 30,328                       |                      |                                   |                                  | 30,328  |
| Interest  |                              | 4,705                |                                   | 2,223                            | 6,928   |
| Total Revenues  | <u>90,793</u>                | <u>125,681</u>       | <u>247,247</u>                    | <u>2,223</u>                     | <u>465,944</u>  |
| <b>EXPENDITURES</b>   |                              |                      |                                   |                                  |   |
| Protection to Persons and Property  | 194,571                      | 88,020               |                                   |                                  | 282,591   |
| Social Services   |                              |                      | 249,810                           |                                  | 249,810   |
| Debt Service  |                              |                      |                                   | 29,238                           | 29,238  |
| Administration  | 2,890                        |                      |                                   |                                  | 2,890   |
| Total Expenditures  | <u>197,461</u>               | <u>88,020</u>        | <u>249,810</u>                    | <u>29,238</u>                    | <u>564,529</u>  |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>(106,668)</u>             | <u>37,661</u>        | <u>(2,563)</u>                    | <u>(27,015)</u>                  | <u>(98,585)</u>                                       |
| <b>Other Financing Sources (Uses)</b>   |                              |                      |                                   |                                  |   |
| Transfer From Other Funds   | 130,000                      |                      |                                   | 26,700                           | 156,700   |
| Transfer To Other Funds   | <u>(15,000)</u>              |                      |                                   |                                  | <u>(15,000)</u>                                       |
| Total Other Financing Sources (Uses)  | <u>115,000</u>               |                      |                                   | <u>26,700</u>                    | <u>141,700</u>  |
| Net Change in Fund Balance  | 8,332                        | 37,661               | (2,563)                           | (315)                            | 43,115  |
| Fund Balances - Beginning   | 301                          | 134,737              | 2,563                             | 729                              | 138,330   |
| Fund Balances - Ending  | <u>\$ 8,633</u>              | <u>\$ 172,398</u>    | <u>\$ 0</u>                       | <u>\$ 414</u>                    | <u>\$ 181,445</u>                                     |

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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The Honorable Jack McCaslin, Hancock County Judge/Executive  
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 1, 2008. Hancock County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hancock County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hancock County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- Lack Of Segregation of Duties In The Occupational Tax Department

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

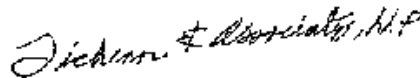
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Hancock County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Hancock County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Tichenor & Associates, LLP

February 1, 2008

## **COMMENT AND RECOMMENDATION**



**HANCOCK COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2007**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

Lack Of Segregation Of Duties In The Occupational Tax Department

Hancock County Fiscal Court has one person in their Occupational Tax Department. The Occupational Tax Administrator receives the taxes, posts the taxes into the computer tax system, makes the deposits, writes the transfer check to the County Treasurer, reconciles the Occupational bank accounts and is the only person on the signature card at the bank. The revenue from this tax is \$2,808,163, which is 45 percent of Hancock County's total revenue of \$6,252,723 for fiscal year ended June 30, 2007. Proper internal controls require adequate design of internal controls of significant accounts or processes to include adequate segregation of duties and effective oversight by those charged with governance of the entity's financial reporting and internal control. The magnitude of the potential misstatement could be material to the financial statements and would not be prevented or detected by the entity's internal controls.

We recommend that the collection of the taxes be performed in the County Treasurer's office along with making deposits and performing bank reconciliations. The County's Occupational Tax Administrator should only post the receipts of taxes in the Occupational Tax computer system. The Occupational Tax checking and money market accounts should be closed and the deposits should be made directly to the General Fund money market account.

*County Judge/Executive Jack B. McCaslin's Response: The Occupation Tax system was set up in 1973. The process for collecting and processing the tax has not been changed. We are taking the auditor's recommendations into consideration in the attempt to comply with the finding and make the necessary corrections.*

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**CERTIFICATE OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**HANCOCK COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**

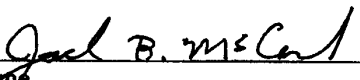
**Appendix A**

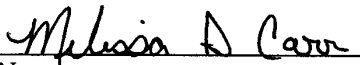


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Name  
County Judge/Executive

  
\_\_\_\_\_  
Name  
County Treasurer

